

A Comparative Study on Non-Performing Assets and its Effect on Financial Performance of Public and Private Sector Banks

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Abstract: Non performing asset is the severe problem which poses a major threat to the financial stability of Indian banking sector. In spite of strong lending policies, effective credit control systems and bank reforming committees, there is a drastic increasing trend noticed in the level of NPA at all banking sector. Increasing NPA will affect the interest income and profitability position of the sector. This is an attempt to study and analyze the financial performance of two selected banks for the past three years. One public sector and one private sector bank is taken on a random basis for three years and its NPA effect on financial position is studied. The study is descriptive in nature, purely depending on the details published in the annual reports of the banks. Ratios, comparative analysis and trends are used to analyze the collected data.

Keywords: Nonperforming Assets, credit control systems, Lok adalats, Debt Recovery Tribunals, SARFAESI Act, Corporate Debt Restructuring ("CDR"), RDDBFI Act 1993, Compromise settlements.

1. Introduction

There is a direct link between financial health of the banking sector and the economic growth of the country. After nationalization of banks, since 1969 the banking sector has expanded its wings to operate in various geographical areas. Though the intention of liberalization reform was with good policies focusing on growth of the country and improving financial stability of the nation, it also has negative impact such as increased cost of maintenance of branches, ineffective lending systems and poor quality of assets. The cut throat competition of the existing banking sector, increasing willful defaulters, lack of trained lending officers, lack of strategies to recover bad loans are the major reasons for increasing NPA levels in the present banking scenario.

Increasing NPA of bank has its effect on Interest rate fluctuations, decrease in deposits, decrease in investments, poor liquidity position, and fluctuations in the income generation of the branch.

Amongst all banking sectors, private sectors are playing an attractive and competitive role compare to public sector banks. They follow attractive lending schemes and improved recovery systems compare to public sector banks. The strategies of

handling willful defaulters seem to be effective in case of private sector, as a result of this financial health of the private banks are good.

2. Research methodology

This is a descriptive study focusing mainly on the published annual financial reports of one Public sector and one Private sector bank randomly selected. Secondary source of data is collected and depended for the analysis.

However, an interaction with the branch managers and credit control officers are proposed for the collection of the primary data for the information on recovery strategies of banks.

Accounting Ratios with the help of simple statistical tools are used to analyze and interpret on the financial performance and the identification of the level of NPAs at banks.

3. Objectives of the research

1. To study the NPA level faced by selective public sector and private sector bank of three years.
2. To understand the effect of NPAs on financial position of banking sector.
3. To analyze the impact of NPA on deposits, advances and investments of the bank.
4. To know the existing effective recovery strategies adapted by banking sector.
5. To provide quality suggestions to manage and improve existing recovery strategies of NPAs and to avoid future chances of NPAs.

4. Sample of research

Banking is a huge sector, however this study is an attempt to analyze the objectives of research on one selected Public sector bank (Bank of Baroda) and one selected Private sector bank (HDFC), based on the performance of its past three years.

5. Limitation of the study

1. As NPA's highlight the risk factor and could adversely affect the confidence of the viewer, banks were not

- cooperative in providing in depth information for the study.
2. Major financial information was collected on the published data i.e., Annual Reports published on the websites.
 3. This study is limited to the details of only one private and one public sector bank randomly chosen and as a result of which generalizing may not be perfect indicators.
 4. Part of primary information was collected through direct questioning of bank officers; there was no much cooperation of the officers, which resulted into more depending on the secondary source of information.

6. Factors influencing NPA

Following are the major proven internal and external factors that affect the nonperforming assets of any bank:

- 1) Internal reasons for assets becoming Nonperforming:
 - Incorrect projection on financial requirements of the industries.
 - Less experienced bank officers performing lending services as loan officers.
 - Managerial inefficiency
 - Poor strategies adopted for the recovery of NPAs
 - Lack of regular training for loan officers on improving their ability to asset credit worthiness of the proposed borrowers.
- 2) External reasons for assets becoming Nonperforming:
 - Political influences on lending decisions of the bank.
 - Natural calamities such as floods, earthquakes and other curse of nature results into bad luck in recovery of loans.
 - Booms and speculations in the market conditions could lead to wrong projections of loan requirements of industrial sector.
 - Changes in Government policies, resulting to waive off major complicated bad loans as a mark of political decisions on priority sectors.
 - Willful defaulters intentionally creating threat to financial sectors.

7. Impact of NPA

The major problems faced by the banking sector due to the increasing NPA levels are: it affects the confidence of depositors and investors; it crunches the financial condition of the branch resulting into worst rotations of funds. Some of the issues are addressed below:

1. Profitability: Increasing NPA level of the branch constantly will result into decreasing profits, decreasing income and interest earning capabilities of the bank. It also reflects on the capacity of the bank in provisions to be made against recovery of Gross Nonperforming Assets.
2. Liquidity: Increasing NPA's and poor recovery of funds will affect the banker's ability to lend more. Once lending reduces, income generation also reduces which will have the negative consequences on the short term solvency position

of the bank.

3. Cost of Management: NPA's and Poor recovery systems demand for additional cost to be incurred towards restructuring the financial damages, training the lending officers and will result in excessive cost incurring towards ineffective management's decision on lending and recovery of loans.
4. Deposits: Increased NPA affects the interest rates of deposits. It decreases the interest rates on deposits, which discourages depositors' decision of maintaining their bank balances. This slowdown will have cyclical effects on other financial stability of the bank.
5. Investors: Normally investors / shareholders lose confidence on the banks which tend to suffer huge loss due to increased NPA. NPAs have huge risk connected to the profitability of the bank which will affect the capacity of paying dividends and improved business of the banks. Decrease in investments will affect the financial positions of the bank.
6. Public confidence: Reliability of banking system will also get disturbed due to increased level of NPAs. The confidence of public is mainly due to sound performance of the branch. The increasing levels of NPAs will affect the margin levels, returns on investments, dividend declaring capability, provisions and overall financial condition of the bank.

8. Recovery strategies basically adopted by private and public sector banks for speedy recovery of NPAS

1. Lok Adalats: It is that redressal mechanism, wherein based on mutual consent of the bank and the borrower, case is presented to the civil court. Under the Legal Services Authorities Act, 1987 civil court helps in solving the dispute between bank and the defaulter for the compromise on final settlement. This is preferred when the ceiling of the case is upto 20 lakhs.
2. One Time Settlement/Compromise settlement: Compromise settlement refers to an understanding with the amount of settlement after considering the sacrifice of the bank and negotiated settlement requested by the borrower. However as per RBI's guidelines a borrower can request to pay his bank, the final settlement which is less than the amount supposed to be paid as mentioned in the loan agreement. Bankers do necessary decision making on the acceptance of negotiated settlement as the wise recovery option.
3. Debt Recovery Tribunals: The Government of India has taken initiative of establishing Debt Recovery Tribunals to enforce provisions of RDDBFI Act 1993 and SARFAESI Act 2002 for redressal of bad loans.
4. RDDBFI Act 1993: Recovery of Debts Due to Banks and Financial Institutions is a provision under which Banks and other financial institutions approaches the Debt Recovery Tribunal with an application for an action to be initiated with respect to the recovery of bad loan from the defaulters.
5. SARFAESI Act, 2002: Securitization and Reconstruction of

Financial Assets and Enforcement of Security Interests is a provision under which borrowers, guarantors, and other any person applying for an action towards the bank terms and conditions can approach for the redressal through Debts Recovery Tribunal. This is an efficient recovery of NPAs by Banks and Financial institutions which helps the bank gain rights to auction properties mortgaged as security, when the defaulter fails to repay the loan taken.

6. Corporate Debt Restructuring (“CDR”): It is a mechanism formed to help those companies which has availed more credit facilities from more than one lending institutions. As a support to the companies facing financial issues, this forum helps the borrower avoiding the problem of NPA getting to the core of Bad loan or Loss. This forum comprises members from all the banks and all financial institutions, Industrial advisors, Bank Association to provide timely advice and support system to work as restructuring mechanism for the companies. It not only helps the companies restructure their debts but also to the banks in avoiding the issues of NPAs.
7. Asset Management Companies: AMC’s act as an instrument to the banks in recovering the bad debts. Banks and financial institutions simply can sell of those NPAs which consume too much time for their speedy recovery of money. As per this mechanism Banks can sell its Bad Debts along with the mortgaged securities to AMC’s, where it buys the claims at a discount and wait for its recovery. However, AMC’s can immediately solve the issues of banks by transferring the claim amount at a discounted value.
8. ARC’s are specially designed reconstruction companies which are registered under the regulation of RBI and SARFAESI Act. It is similar to that of AMC’s in its buying of the bad loans. However, it buys bad loans and pay not fully in cash but partially in cash and remaining balance is raised as security receipts. Banks no more shows those bad loans sold to ARC’s as NPAs instead treat them as Investments which could be realizable in future.

9. Analysis of data & interpretations

Interpretation: The table 1, indicates three years priority sector wise GNPA of Bank of Baroda. There is continuous increase in the accumulation of GNPA in the Agriculture & allied activities, Advances to Industries and services, excepting a decline in the year 2018 compare to its previous year.

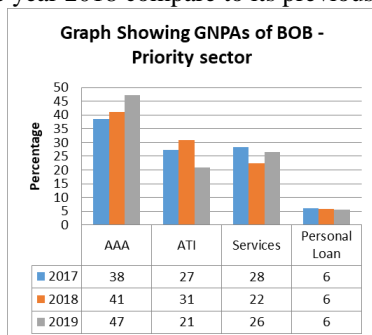


Table 1
Sector wise GNPA's - Priority sector (Rupees in Crores) of Bank of Baroda

Classification	2017	2018	2019	2017 (%)	2018 (%)	2019 (%)
Agriculture and allied activities	5139	4892.37	5409.1	38	41	47
Advances to industries	3656	3682.7	2397.2	27	31	21
Services	3775	2666.4	3036.7	28	22	26
Personal loans	793.7	689.74	638.07	6	6	6
Total	13364	11931.25	11481	100	100	100

Inferences: Agricultural, Industrial and Services play risky advances in connection to Priority sectors of Non-performing assets in BOB.

Table 2
Sector wise GNPA's – Non Priority sector (Rupees in Crores) of Bank of Baroda

Classification	2017	2018	2019	2017(%)	2018(%)	2019(%)
Agriculture and allied activities	128.7	1289.66	278.93	0.44	2.28	0.58
Advances to industries	16013	25703.79	21637	54.55	45.51	44.86
Services	5375	17248.32	10870	18.31	30.54	22.54
Personal loans	7839	307.37	3965.9	26.7	0.54	8.22
Total	29355	56480.39	48233	100	100	100

Interpretation: The above table indicates three years priority sector wise GNPA's of HDFC. There is continuous increase in the accumulation of GNPA's in the Advances to Industries, Services & personal loan compare to Agricultural sector.

Inferences: The proportion of GNPA's in BOB towards Advances to industries is too high compare to other sectors of Non-priority Sectors.

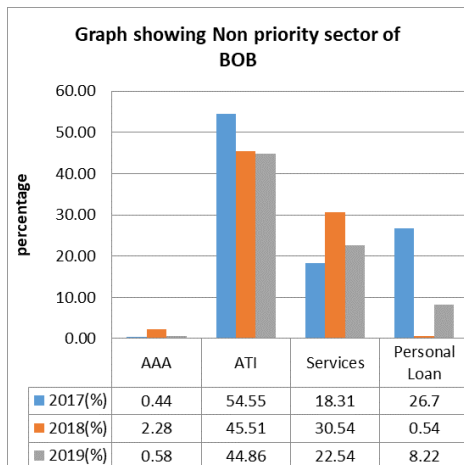


Table 3

Sector wise GNPA's - Priority sector (Rupees in Crores) of HDFC.

Classification	2017	2018	2019	2017(%)	2018(%)	2019(%)
Agriculture and allied activities	1280	2514.6	3185.4	52.17	62.74	67.65
Advances to industries	480	483	289	19.59	12.07	6.15
Services	678.5	990.26	1207.5	27.65	24.71	25.64
Personal loans	14.43	19.26	26.02	0.59	0.48	0.55
Total	2454	4007	4708.7	100	100	100

Interpretation: The above table indicates three years priority sector wise GNPA's of HDFC. There is continuous increase in the accumulation of GNPA in the Agriculture & allied activities compare to other sectors.

Inferences: The proportions of GNPA's in HDFC towards Agriculture & Allied Activities and Services loans are too high compare to other sectors of Priority sectors.

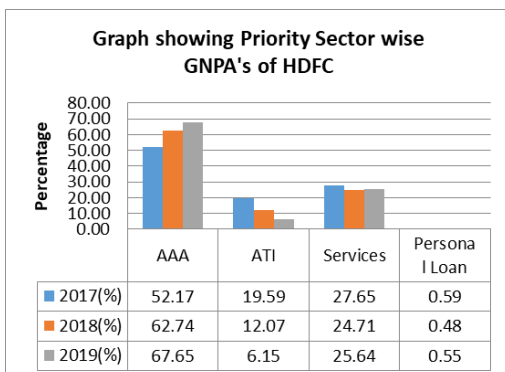


Table 4

Sector wise GNPA's - Non Priority sector (Rupees in Crores) of HDFC

Classification	2017	2018	2019	2017(%)	2018(%)	2019(%)
Agriculture and allied activities	74.89	149.41	181.68	2.22	3.32	2.83
Advances to industries	1243	1783.6	2252.9	36.86	39.64	35.05
Services	1038	1114.86	1808.9	30.78	24.78	28.14
Personal loans	1016	1451.16	2183.8	30.14	32.25	33.98
Total	3372	4499.03	6427.2	100	100	100

Interpretation: The above table indicates three years non priority sector wise GNPA's of HDFC. Advances to industries, services and personal loans GNPA's are too high compare to Agriculture and allied activities.

Inferences: The proportion of GNPA's other than agriculture and allied activities is too high in connection to the Non priority sectors of HDFC.

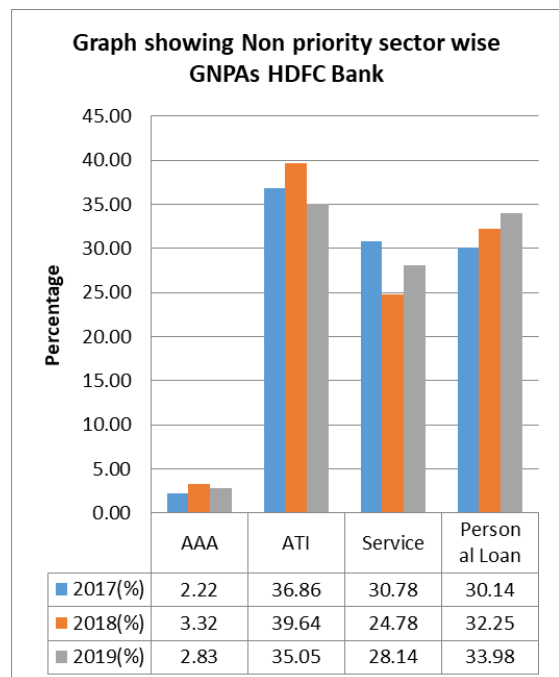


Table 5
Difference in the ratio of advances to total assets

Years	HDFC	Bank of Baroda	Variance
2017	74.51	55.15	-19.35
2018	61.88	59.36	-2.51
2019	65.84	60.02	-5.81

Interpretation: The above table indicates the ratio of advances to total assets of both the banks for the continuous three years. The proportion of Advances to total assets of HDFC shows gradual decrease from 74.51% to 65.84%. However, BOB shows an increase of 55.15% to 60.02% respectively for the year 2017 & 2019.

Inferences: The ratios of advance to total assets of HDFC are higher than that of BOB in all the three years.

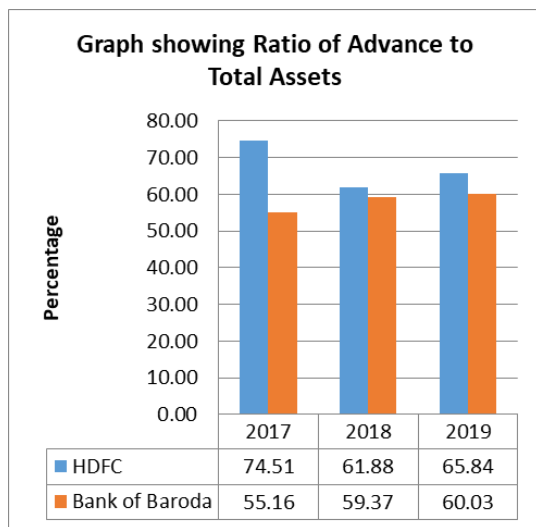


Table 6
Advances of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	643,639.66	383259.22	-260380.43
2018	658,333.09	427431.83	-230901.26
2019	819,401.22	468818.74	-350582.48

Interpretation: The above table indicates the amount of advances lent by both the banks for the continuous three years. The proportion of Advances of HDFC is higher than the advances of BOB.

Inference: In all the three years, on an average of 2,30,000 crores variation in the advances between HDFC and Bank of Baroda. Advances of HDFC are higher than that of BOB.

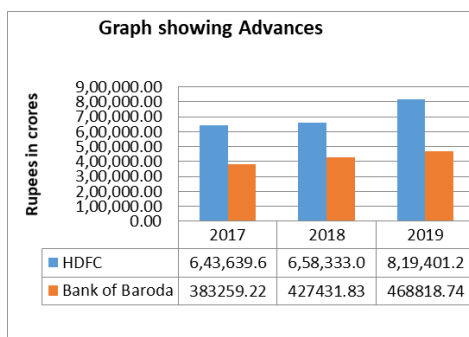


Table 7
Deposits of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	554,568.20	601675.17	47106.97
2018	788,771	591314.82	-197455.82
2019	923,141	638689.72	-284451.21

Interpretation: The above table indicates the deposits of both the banks for the continuous three years. The proportion of deposits of HDFC is higher than the deposit of BOB in the year 2018 and 2019. Deposits of BOB are higher than HDFC in the year 2017.

Inference: Deposits of both the banks shows gradual increase in 2019 compare to the year 2017. HDFC's deposits are higher than the deposits of BOB.

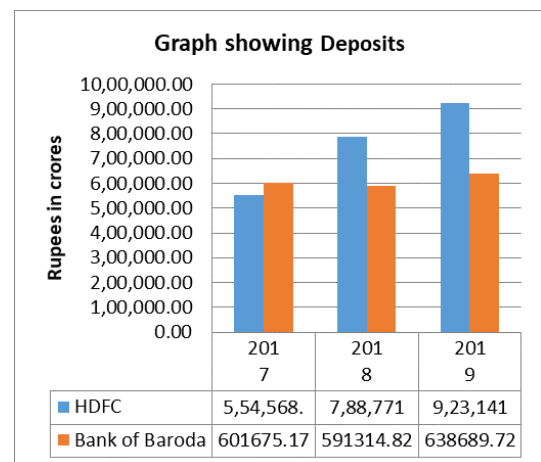


Table 8
NNPA's of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	5,825.88	42719	36893.12
2018	8506.86	56480	47973.14
2019	11135.91	48233	37097.09

Interpretation: The above table indicates the NPA's (value in crore) of both the banks for the continuous three years. The proportion of NPA's of HDFC is lower than the NPA's of BOB in all the three years.

Inference: On an average of 40,500 crores variation in the levels of NPA's for all the three years between HDFC and Bank of Baroda. BOB's NNPA level is higher than HDFC.

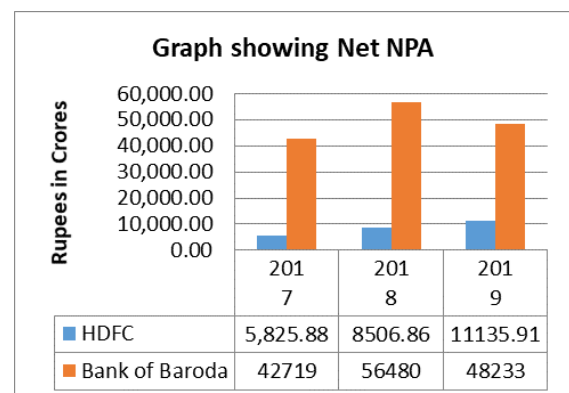


Table 9
Net profit for the year of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	14,549.64	433.52	-14116.12
2018	17,486.73	-2431.81	-19918.54
2019	21,078.17	1383.14	-19695.03

Interpretation: The above table indicates the Net profits of both the banks for the continuous three years. The proportion of Net profit of HDFC is higher than that of BOB. In all the three years, on an average of 17,900 crores variation in the Net profit between HDFC and Bank of Baroda for three years.

Inference: Net profits of both the banks individually shows better performance in 2019 compare to the year 2017.

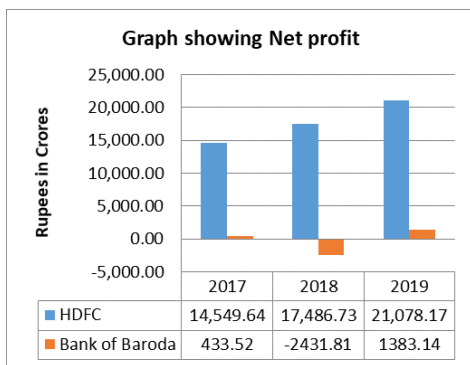


Table 10
Cash and Balance with RBI and other Banks

Years	HDFC	Bank of Baroda
2017	48,952.10	150469.9125
2018	122,915.08	96859.4674
2019	81347.6392	247329.38

Interpretation: The above table indicates the Cash and Bank balance of both the banks for the continuous three years period. There is continuous increase of balances in HDFC from 2017 till 2019, whereas balances of Bank of Baroda shows a Continuous decline from the year 2017 to 2019.

Inference: Cash and Bank balance of HDFC shows an improved increasing balance compare to BOB from 2017 to 2019.

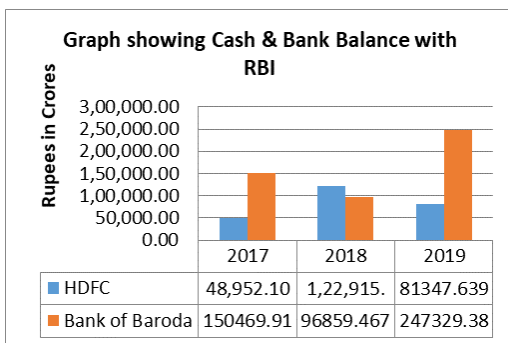


Table 11
Net NPA and Net profit of BOB

Years	Net Profit	Net NPA
2017	433.52	18080
2018	-2431.81	23483
2019	1383.14	15609

Interpretation: The above table shows the Net NPA and Net Profit of BOB. There are fluctuations seen in the NPA and Net profits of BOB.

Inference: There is loss noticed in Bank of Baroda for the year 2018, wherein Net NPA also shows higher value of 23483 crores.

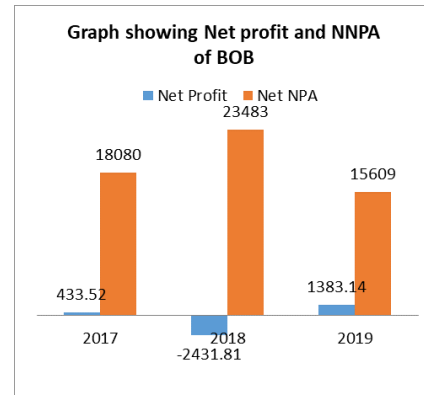


Table 12
Net NPA and Net profit of HDFC

Years	Net Profit	Net NPA
2017	14,549.64	1843.99
2018	17,486.73	2,601.02
2019	21,078.14	3,214.52

Interpretation: The above table shows the Net NPA and Net Profit of HDFC. In spite of Increasing NPA the profits of the bank also shows continuous increase from the year 2017 till 2019.

Inference: Net profit of HDFC shows improvement irrespective of increasing NPA from 2017 to 2019.

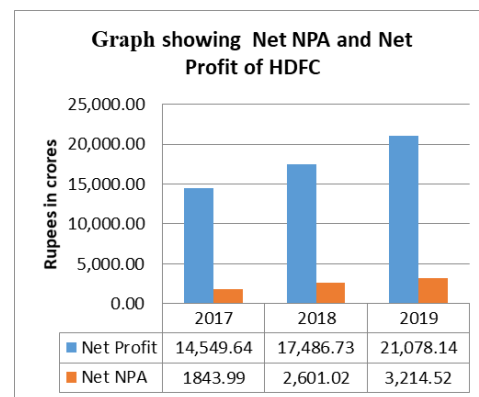


Table 13
NPAs and Advances of BOB

Years	Net NPA	Advances
2017	18080	383259.2231
2018	23483	427431.8313
2019	15609	468818.7362

Interpretation: The above table indicates the NPAs and Advances of BOB for the three years. There is a decline to 15609 crores in the year 2019 compare to its previous year.

Inferences: In spite of a declining net NPA of Bank of Baroda, Advances made in 2019 shows 468818.73 crores, which is more than its previous year.

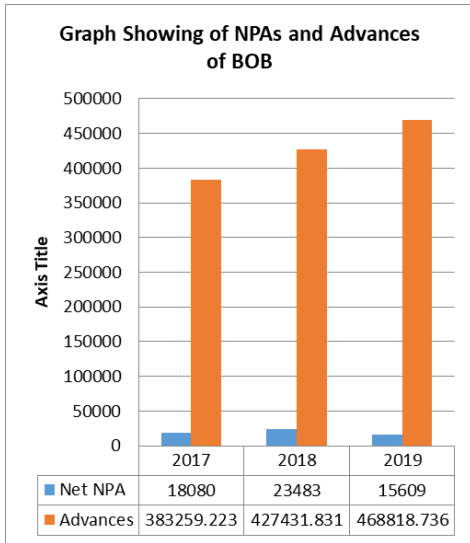


Table 14

NPAs and Advances of HDFC

Years	Net NPA	Advances
2017	1843.99	643639.6563
2018	2,601.02	658333.0908
2019	3,214.52	819401.2167

Interpretation: The above table indicates the NPAs and advances of HDFC for the three years. There is a continuous increase in the Net NPA and also Advances of the bank from 2017 till 2019.

Inference: In spite of increasing trend seen in NPA, Advance also shows increase in 2019 compare to the year 2017.

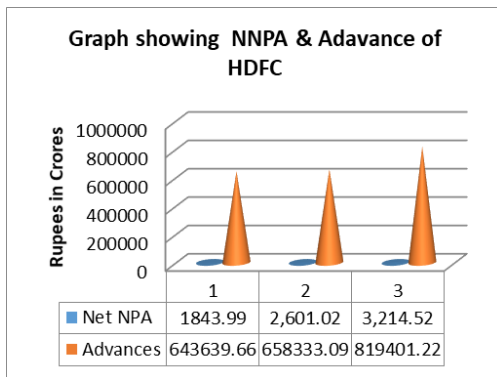


Table 15

Deposits and Advances of BOB

Years	Deposits	Advances	Advance to Deposit Ratio
2017	601675.1729	383259.2231	63.70
2018	591314.8224	427431.8313	72.28
2019	638689.7172	468818.7362	73.40

Interpretation: The above table indicates Deposits, Advance and proportion of Advance in Deposits of BOB for the three years. Advances of the year 2017 is 63.69% of its Deposits; 72.28% in the year 2018 and 73.40% in the year 2019.

Inference: There is a continuous increase in the ratio of Advance to Deposit of Bank of Baroda from 2017 till 2019.

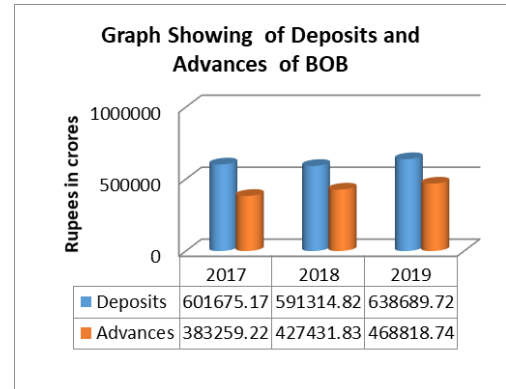


Table 16

Deposits and Advances of HDFC

Years	Deposits	Advances	Advance to Deposit Ratio
2017	554568.2021	643639.6563	116.0614067
2018	788770.6396	658333.0908	83.46318407
2019	923140.9284	819401.2167	88.76231044

Interpretation: The above table indicates Deposits, Advance and proportion of Advance in Deposits of HDFC for the year 2017 shows that Advance is 116% of that of Deposits i.e., 16% more than the deposits.

Inference: Advances of HDFC are within the limits of Deposits and also shows gradual increase in 2019, compare to its previous year 2018.

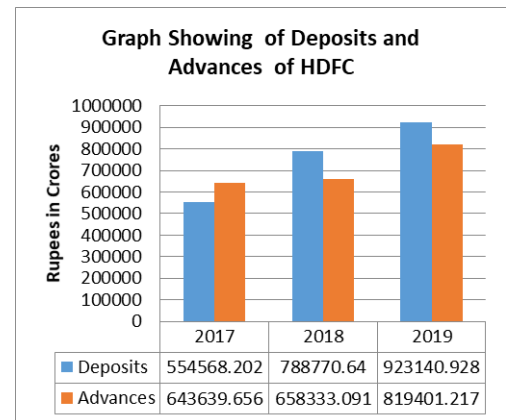


Table 17

Interest income of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	69,305.96	42199.93	-27106.03
2018	80,241.35	43648.54	-36592.81
2019	98,970.25	49974.11	-48996.14

Interpretation: The above table indicates the Net profits of both the banks for the continuous three years. The proportion of Net profit of HDFC is higher than that of BOB.

Inference: On an average for three years, 17,900 crores increased variation is noticed in the Net profit of HDFC compare to Bank of Baroda.

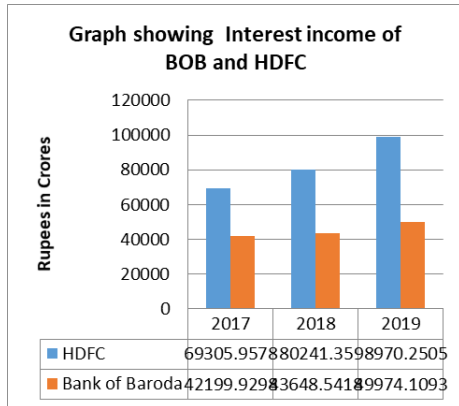


Table 18
Interest expended of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	36,166.73	28686.51	-7480.22
2018	40,146.49	28126.8	-12019.69
2019	50,728.83	31290.3	-19438.53

Interpretation: The above table indicates the interest expended of both the banks for the continuous three years. The proportion of interest expended of HDFC is higher than that of BOB. There is continuous increase noticed in HDFC, however BOB has increased to 31290.3 crore compare to its previous year 28126.8 crore.

Inference: Both the banks interest expended shows increasing trend. However, HDFC value of interest expended is higher than BOB.

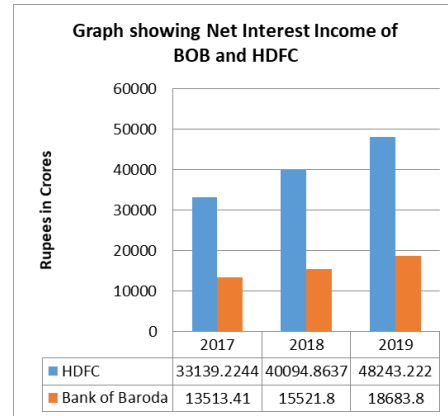


Table 20

Interest Earned to Deposits Ratio of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	10.77	7.01	-3.75
2018	10.17	7.38	-2.79
2019	10.72	7.82	-2.90

Interpretation: The above table indicates the interest earned to deposits ratio of both the banks for the continuous three years. The proportion of interest earned on deposits of the banks shows continuous increase from 2017 to 2019. The interest earned percentage of HDFC is higher than BOB.

Inference: On an average, interest earned of HDFC shows an increase of 3.15 percent compare to the income of BOB for the specified three years.

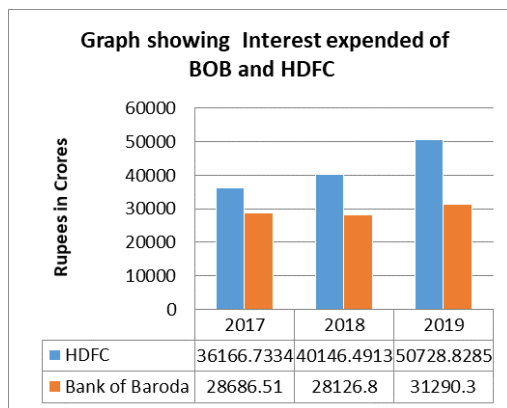


Table 19

Net Interest Income of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	33,139.22	13513.41	-19625.81
2018	40,094.86	15521.8	-24573.06
2019	48,243.22	18683.8	-29559.42

Interpretation: The above table indicates the net interest income of both the banks for the continuous three years. The proportion of Net interest income of the banks shows continuous increase from 2017 to 2019. The capacity of Net interest income of HDFC is higher than BOB.

Inference: On an average, Net income of HDFC shows an increase of 24500 Crores compare to the income of BOB for the specified three years.

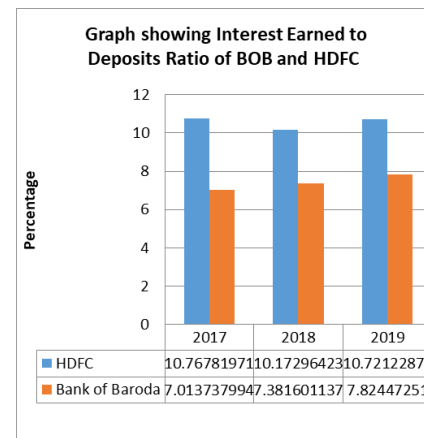


Table 21

GNPA's of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	5,825.88	42719	36,893.12
2018	8506.86	56480	47973.14
2019	11135.91	48233	37097.09

Interpretation: The above table indicates the GNPA's of both the banks for the continuous three years. The proportion of GNPA of HDFC shows continuous increase from 2017 to 2019. However, BOB shows a decrease in its GNPA for the year 2019 compare to its previous year.

Inference: On an average considering the tenure of above mentioned three years, GNPA of BOB is 40600 crores more than that of HDFC.

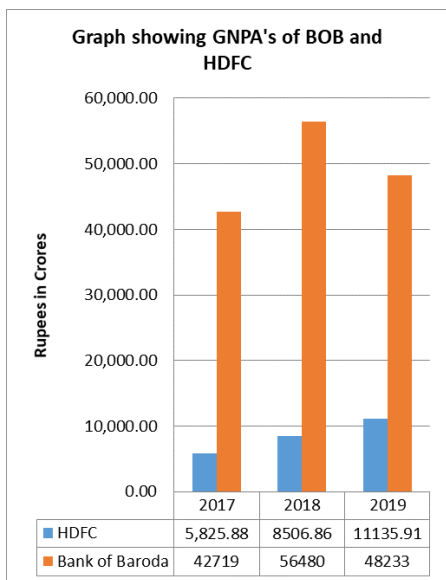


Table 22

GNPA to Total Advances Ratio of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	0.91	11.15	10.24
2018	1.29	13.21	11.92
2019	1.36	10.29	8.93

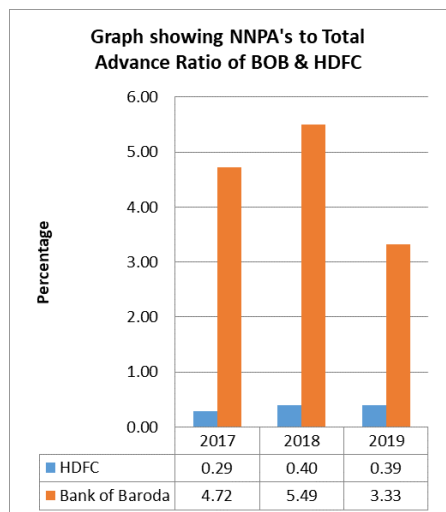
Interpretation: The above table indicates the GNPA to Total Advance Ratio of both the banks for the continuous three years. The percentage of GNPA's on total advance of HDFC shows continuous increase from 2017 to 2019. However, BOB shows decrease in its percentage from 2017 till 2019. GNPA's level of HDFC shows lower than that of BOB.

Inference: On an average 10.36% BOB's GNPA to Total Advances Ratio shows increase in its difference with that of HDFC for the above specified three years.

Table 23

NPA's to Total Advances Ratio of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	0.29	4.72	4.43
2018	0.40	5.49	5.10
2019	0.39	3.33	2.94



Interpretation: The above table indicates the NPA to Total Advance Ratio of both the banks for the continuous three years. The percentage of NPA on total advance of HDFC shows an increase to 0.395 in 2018 and slightly declined to 0.39 percent in the year 2019. The percentage of NPA on total advance of BOB shows an increase to 5.49% in 2018 and slightly declined to 3.329 percent in the year 2019. NPA's level of HDFC shows lower than that of BOB.

Inference: On an average 4.15% BOB's NNPA to Total Advances ratio shows increase in its difference with that of HDFC for the above specified three years.

Table 24

Provisions Ratio of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	68.35	57.68	-10.67
2018	69.42	58.42	-11.00
2019	71.13	67.64	-3.50

Interpretation: The above table indicates the provisions made against Gross NPA's of both the banks for the continuous three years. In all the three years, on an average there is an increase of 8.38% in the provisions made by HDFC compare to Bank of Baroda for the above mentioned three years.

Inference: The proportion of provisions made by HDFC is higher than that of BOB in all the three years.

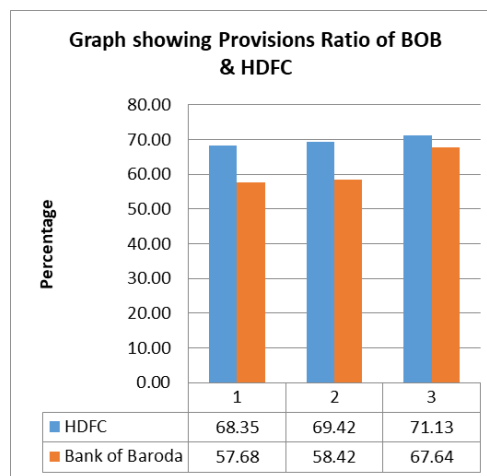


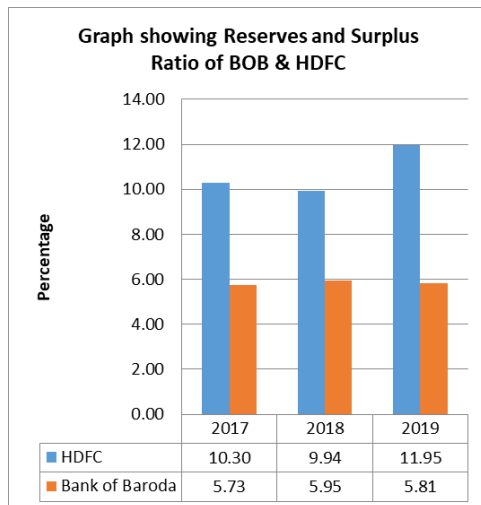
Table 25

Reserves & Surplus to Total Assets Ratio of BOB and HDFC

Years	HDFC	Bank of Baroda	Variance
2017	10.30	5.73	-4.56
2018	9.94	5.95	-3.99
2019	11.95	5.81	-6.13

Interpretation: The above table indicates the Reserves & Surplus to Total Assets Ratio of both the banks for the continuous three years. The percentage of Reserves and Surplus of HDFC shows a decrease to 9.94% in 2018 compare to its previous year; and gradually increased to 11.95% in the year 2019. The percentage of Reserves and Surplus of HDFC shows an increase to 5.95% in 2018 compare to its previous year; and gradually decreased to 5.81% in the year 2019. Reserves and Surplus proportion of HDFC shows higher than that of BOB.

Inference: On an average 4.89% BOB's Reserves and surplus balance shows decrease in its difference with that of HDFC for the above specified three years.



10. Findings

Nonperforming assets have always been a threat to the overall financial performance of the banking sector. Appointment of Recovery agents and appointing arbitrators are basically used methods by both private sector as well as public sector banks for recovery of bad loans. Compromise settlements in case of less Secured loans and SARFAESI Act 2002 provision for Secured loans are the best strategies preferred as most effective recovery systems in both public and private sectors banks. This study is an effort to assess the effect of NPA on various financial aspects of one private and one public sector bank. Along with the financial statement analysis, direct conversations with the bankers also have helped in getting the below mentioned findings:

- Agricultural, Industrial and Services play risky advances in connection to Priority sectors of Non-performing assets in BOB. Similarly, Agriculture & Allied Activities and Services loans are too high compare to other sectors in case of Priority sector of HDFC. However, the proportion of GNPS of BOB is higher than HDFC.
- The proportion of GNPA's in BOB towards Advances to industries is too high compare to other sectors of Non-priority Sectors. However, the proportion of GNPA's other than Agriculture and allied activities is too high in connection to the Non priority sectors of HDFC.
- The ratios of advance to total assets of HDFC are higher than that of BOB in all the three years, with an average difference of 230000 crores increased advances of HDFC compare to BOB for the past three years.
- Deposits of both the banks shows gradual increase in

2019 compare to the year 2017. However, HDFC's deposits are higher than the deposits of BOB.

- On an average considering the tenure of above mentioned three years, GNPA of BOB is 40600 crores more than that of HDFC. It is also noticed in the assessment that on an average of 40,500 crores variation is identified in the levels of NPA's for all the three years between HDFC and Bank of Baroda. However, BOB's GNPA & NNPA levels are higher than HDFC.
- Cash and Bank balance of HDFC shows an improved increasing balance compare to BOB from 2017 to 2019.
- In spite of a declining net NPA of Bank of Baroda, Advances in 2019 shows 468818.73 crores, which is more than its previous year. In spite of increasing trend seen in NPA, Advances at HDFC also shows increase in 2019 compare to the year 2017.
- There is a continuous increase in the ratio of Advance to Deposit of Bank of Baroda from 2017 till 2019. However, Advances of HDFC are within the limits of Deposits and also shows gradual increase in 2019, compare to its previous year 2018.
- On an average for the past three years, interest earned of HDFC shows an increase of 3.15 percent compare to the income of BOB. Both the Banks interest expended shows increasing trend. However, HDFC value of interest expended is higher than BOB. It is also noticed that Net income of HDFC shows an average increase of 24500 Crores compare to the income of BOB for the specified three years.
- GNPA to Total Advance Ratio and NNPA to Total Advance Ratio of BOB and HDFC show a difference of 10.36% and 4.15% respectively between the banks. However, BOB shows increasing nonperforming assets ratio compare to HDFC.
- The proportion of provisions made towards recovery of NPA of HDFC shows continuous increase from 68.35% in 2017 to 71.13% in 2019. However, the proportion of provisions made towards recovery of NPA of BOB also shows continuous increase from 57.68% in 2017 to 67.64% in 2019. The ability of HDFC in creating provision is higher than that of BOB in all the three years
- On an average 4.89% BOB's Reserves and surplus balance shows decrease in its difference with that of HDFC for the above specified three years.
- There is loss of 2431.81 Crores noticed in Bank of Baroda for the year 2018, wherein Net NPA also shows higher value in the same year to the extent of 23483 crores. Apart from this, it is noticed that Net profit of BOB in the year 2017 is 433.52 crores which has increased to 1383.14 Crores in the year 2019. However, Net profit of HDFC shows improvement

irrespective of increasing NPA from 2017 to 2019 i.e., from 14549.64 crores to 21078.14 crores respectively.

- On an average for the past three years, 17,900 crores increased variation is noticed in the Net profit of HDFC compare to Bank of Baroda

11. Suggestions

Nonperforming assets is an issue which cannot be eliminated completely, however following suggestions could be considered for avoiding the creation of NPAs and to reduce the problems of existing NPAs:

- Identifying Willful defaulters and avoid lending loans to such noncredit worthy persons.
- Strengthening the recovery policies of banks.
- Improved skills of banks could avoid problems to the maximum extent possible. Hence, regular training to the lending officers will avoid major problems of NPAs.
- Experienced loan managers assessing the clients' financial requests.
- Avoiding political influences.
- Increasing collateral security percentage which can be liquidated immediately.

12. Conclusion

Non performing asset's existence in the banking sector is always proved to be a threat to the financial position of the bank. It affects not only the growth of the bank but also creates economic problem to the country. Incorrect projections, lack of trained officers, managerial inefficiencies, poor recovery systems, willful defaulters, political influences and many such reasons are almost the same common reasons for increasing the Nonperforming assets at banking sector, irrespective of private or public banks. However, this study considering the performance of two banks for the past three years indicates that in spite of increasing trend noticed in both the sectors of bank. Private sector bank performs better than public sector. Advances, Deposits, Income generation capacity of HDFC are higher than the potentials of BOB. GNPA's and NNPA's are lower in case of HDFC compare to BOB. Profitability position, Liquidity position and Capability of increasing the level of

provision against Bad loans are noticed to be better in HDFC compare to BOB in the past three years. In spite of lack of in-depth information on amount recovered under various recovery systems adopted by the banks, there can be a conclusion drawn based on financial statement assessment that private sector handles NPAs better than public sector. Amongst all the banking sectors, private sectors are playing a major role in increasing its attractive lending policies and easy procedures to avail loans. This in turn helps them increase the levels of advances and deposits in such a way they earn more income and improve their sustainability in spite of increasing NPAs.

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